

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated McCreary County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCREARY COUNTY FISCAL COURT

June 30, 2007

Ross & Company, PLLC has completed the audit of the McCreary County Fiscal Court for fiscal year ended June 30, 2007.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of McCreary County, Kentucky. In accordance with OMB Circular A-133 we have issued an unqualified opinion on compliance for the federal programs.

The financial statements of the McCreary County Industrial Development Authority, a discretely presented component unit, have not been included in the financial statements. As a result, we have issued an adverse opinion on the aggregate discretely presented component units.

Financial Condition:

The fiscal court had net assets of \$5,866,827 in its governmental activities as of June 30, 2007. The fiscal court had unrestricted net assets of \$2,337,481 in its governmental activities as of June 30, 2007. The fiscal court's discretely presented component units had net assets of \$1,880,828 as of June 30, 2007. The discretely presented component units had net cash and cash equivalents of \$188,415. The business-type activities had net cash and cash equivalents of \$10,995. The fiscal court had total debt principal as of June 30, 2007 of \$5,505,151 with \$529,601 due within the next year. The discretely presented component units had total debt principal as of June 30, 2007 of \$277,862 with \$19,129 due within the next year.

Report Comments:

2007-01	The County Should Pay Invoices Within Thirty Days
2007-02	Interfund Transfers Of \$478,521 Were Made Without Proper Authorization
2007-03	The County Should Improve Their Internal Control Procedures In Regards To Bank Statements And Reconciliations
2007-04	The County Filed Incorrect Payroll Tax Returns That Resulted In An Additional \$9,490 Of Taxes Being Due
2007-05	The County Should Maintain Minimum Balance In Their Payroll Account
2007-06	Occupational Tax Should Be Allocated In Accordance With Occupational License Fee Ordinance
2007-07	The Duties Of The County Treasurer Should Not Be Delegated
2007-08	The McCreary County Solid Waste Management Board Should Implement Compensating Internal Controls
2007-09	The Airport Board Should Strengthen Internal Controls Over Expenditures
2007-10	The Stearns Historical Area Development Authority Should Implement Compensating Internal Controls
2007-11	Fuel Costs Should Be Reimbursed To The County's Road Fund
2007-12	The County Treasurer Should Prepare A Monthly Financial Statement
2007-13	The County Treasurer Should Properly Prepare Her County Settlement And Present It To The Fiscal Court For Approval
2007-14	The County Treasurer Did Not Prepare A Federal Monies Worksheet
2007-15	All Court-Ordered Fees Should Be Collected By The Circuit Clerk's Office
2007-16	The County Failed To Pay Retirement On Qualified Part-Time Employees

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCREARY COUNTY FISCAL COURT
June 30, 2007
(Continued)

Deposits:

The fiscal court and component units' deposits as of August 31, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$34,981

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the McCreary County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, McCreary County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of McCreary County, Kentucky do not include the financial data of the McCreary County Industrial Development Authority. This entity meets the criteria to be reported as a discretely presented component unit of McCreary County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of financial data for the McCreary County Industrial Development Authority, the financial statements referred to above do not present fairly, in all material respects, the financial position of the aggregate discretely presented component units of McCreary County, Kentucky, as of June 30, 2007, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
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Additionally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McCreary County, Kentucky's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2008 on our consideration of McCreary County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

2007-01	The County Should Pay Invoices Within Thirty Days
2007-02	Interfund Transfers Of \$478,521 Were Made Without Proper Authorization
2007-03	The County Should Improve Their Internal Control Procedures In Regards To Bank Statements And Reconciliations
2007-04	The County Filed Incorrect Payroll Tax Returns That Resulted In An Additional \$9,490 Of Taxes Being Due
2007-05	The County Should Maintain Minimum Balance In Their Payroll Account
2007-06	Occupational Tax Should Be Allocated In Accordance With Occupational License Fee Ordinance
2007-07	The Duties Of The County Treasurer Should Not Be Delegated
2007-08	The McCreary County Solid Waste Management Board Should Implement Compensating Internal Controls

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2007-09	The Airport Board Should Strengthen Internal Controls Over Expenditures
2007-10	The Stearns Historical Area Development Authority Should Implement Compensating Internal Controls
2007-11	Fuel Costs Should Be Reimbursed To The County's Road Fund
2007-12	The County Treasurer Should Prepare A Monthly Financial Statement
2007-13	The County Treasurer Should Properly Prepare Her County Settlement And Present It To The Fiscal Court For Approval
2007-14	The County Treasurer Did Not Prepare A Federal Monies Worksheet
2007-15	All Court-Ordered Fees Should Be Collected By The Circuit Clerk's Office
2007-16	The County Failed To Pay Retirement On Qualified Part-Time Employees

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

June 13, 2008

MCCREARY COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Blaine Phillips	County Judge/Executive
Judy Redden	Magistrate
Coy Taylor (through December 31, 2006)	Magistrate
Ralph Murphy (beginning January 1, 2007)	Magistrate
Stanley Cox (through December 31, 2006)	Magistrate
Teddy Coffey (beginning January 1, 2007)	Magistrate
Roger Phillips	Magistrate

Other Elected Officials:

Ralph P. Chaney	County Attorney
Richard Scott Jones (through December 31, 2006)	Jailer
Tony Ball (beginning January 1, 2007)	Jailer
Jo Kidd	County Clerk
Othel King	Circuit Court Clerk
Clarence Perry (through December 31, 2006)	Sheriff
Gus Skinner, Jr. (beginning January 1, 2007)	Sheriff
Michael Stephens (through December 31, 2006)	Property Valuation Administrator
Bruce Lominac (beginning January 1, 2007)	Property Valuation Administrator
Teddy Coffey (through December 31, 2006)	Coroner
Brandon New (beginning January 1, 2007)	Coroner

Appointed Personnel:

Donna Ross	County Treasurer
Stephanie Tucker	Occupational Tax Collector
Sue Kidd	Finance Officer

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MCCREARY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

MCCREARY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,406,687	\$ 10,995	\$ 1,417,682	\$ 188,415
Investments	417,905		417,905	
Notes Receivable	146,113		146,113	
Asset Held For Resale	195,000		195,000	
Due From Component Units	305		305	
Total Current Assets	2,166,010	10,995	2,177,005	188,415
Noncurrent Assets:				
Notes Receivable	609,354		609,354	
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	149,011		149,011	121,000
Construction In Progress	204,138		204,138	275,370
Buildings	6,021,364		6,021,364	1,500,089
Other Equipment	285,077		285,077	59,741
Vehicles and Equipment	540,387		540,387	14,380
Infrastructure Assets - Net	1,396,637		1,396,637	
Total Noncurrent Assets	9,205,968		9,205,968	1,970,580
Total Assets	11,371,978	10,995	11,382,973	2,158,995
LIABILITIES				
Due to McCreary County				305
Current Liabilities:				
Revenue Bonds Payable	205,000		205,000	
Financing Obligations Payable	325,601		325,601	19,129
Total Current Liabilities	530,601		530,601	19,434
Noncurrent Liabilities:				
Revenue Bonds Payable	3,960,000		3,960,000	
Financing Obligations Payable	1,014,550		1,014,550	258,733
Total Noncurrent Liabilities	4,974,550		4,974,550	258,733
Total Liabilities	5,505,151		5,505,151	278,167
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	3,091,463		3,091,463	1,692,718
Restricted For:				
Debt Service	425,627		425,627	
Grant Projects	12,256		12,256	
Held For The Custody Of Others		937	937	
Unrestricted	2,337,481	10,058	2,347,539	188,110
Total Net Assets	\$ 5,866,827	\$ 10,995	\$ 5,877,822	\$ 1,880,828

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,504,123	\$ 83,263	\$ 274,738	\$
Protection to Persons and Property	1,728,215	988,778	552,822	
General Health and Sanitation	10,348			
Social Services	342,726			
Recreation and Culture	108,021			
Transportation Facilities and Services	116,073			
Roads	1,203,014		1,490,217	
Debt Service	246,590			391,719
Capital Projects	1,401,393			171,945
Total Governmental Activities	6,660,503	1,072,041	2,317,777	563,664
Business-type Activities:				
Jail Canteen	134,122	140,921		
Total Business-type Activities	134,122	140,921		
Total Primary Government	6,794,625	1,212,962	2,317,777	563,664
Component Units:				
Solid Waste Management Board	34,430	37,674		
Tourism Commission	31,619		27,380	
McCreary County Airport Board	27,694		8,708	228,392
Stearns Historical Area Development Authority	68,523			33,294
Total Component Units	\$ 162,266	\$ 37,674	\$ 36,088	\$ 261,686

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Occupational Taxes

 Other Taxes

In Lieu Tax Payments

Excess Fees

Miscellaneous Revenues

Interest

 Total General Revenues

 Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (1,146,122)	\$	\$ (1,146,122)	\$
(186,615)		(186,615)	
(10,348)		(10,348)	
(342,726)		(342,726)	
(108,021)		(108,021)	
(116,073)		(116,073)	
287,203		287,203	
145,129		145,129	
(1,229,448)		(1,229,448)	
(2,707,021)		(2,707,021)	
	6,799	6,799	
	6,799	6,799	
(2,707,021)	6,799	(2,700,222)	
			3,244
			(4,239)
			209,406
			(35,229)
			173,182
316,250		316,250	
3,413		3,413	
121,396		121,396	
940,961		940,961	
179,705		179,705	
448,986		448,986	
6,367		6,367	
603,161		603,161	2,450
65,922		65,922	1,412
2,686,161		2,686,161	3,862
(20,860)	6,799	(14,061)	177,044
5,887,687	4,196	5,891,883	1,703,784
\$ 5,866,827	\$ 10,995	\$ 5,877,822	\$ 1,880,828

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 516,191	\$ 159,609	\$ 89,829	\$ 203,474
Investments				
Due From Other Funds		74,983		
Due From Component Units		305		
Total Assets	<u>516,191</u>	<u>234,897</u>	<u>89,829</u>	<u>203,474</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due To Other Funds	<u>74,547</u>			
Total Liabilities	<u>74,547</u>			
FUND BALANCES				
Reserved for:				
Encumbrances	288,412	234,897	49,530	
Debt Service				
Occupational Tax Purposes				
Unreserved:				
General Fund	153,232			
Special Revenue Funds			40,299	203,474
Total Fund Balances	<u>441,644</u>	<u>234,897</u>	<u>89,829</u>	<u>203,474</u>
Total Liabilities and Fund Balances	<u>\$ 516,191</u>	<u>\$ 234,897</u>	<u>\$ 89,829</u>	<u>\$ 203,474</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Rural Business Enterprise Grant Revolving Loan Fund	McCreary County Courthouse and Public Square Corporation Fund	Occupational Tax Fund	Non- Major Funds	Total Governmental Funds
\$ 46,441	\$ 7,722 417,905	\$ 27,079	\$ 356,342	\$ 1,406,687 417,905 74,983 305
<u>46,441</u>	<u>425,627</u>	<u>27,079</u>	<u>356,342</u>	<u>1,899,880</u>
			436	74,983
			436	74,983
			7,965	580,804
	425,627			425,627
		27,079		27,079
				153,232
<u>46,441</u>			<u>347,941</u>	<u>638,155</u>
<u>46,441</u>	<u>425,627</u>	<u>27,079</u>	<u>355,906</u>	<u>1,824,897</u>
<u>\$ 46,441</u>	<u>\$ 425,627</u>	<u>\$ 27,079</u>	<u>\$ 356,342</u>	<u>\$ 1,899,880</u>

Reconciliation of the Balance Sheet to Statement of Net Assets:

Total Fund Balances	\$ 1,824,897
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Notes Receivable	755,467
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	11,167,046
Accumulated Depreciation	(2,570,432)
Asset Held For Resale	195,000
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,340,151)
Bonded Debt	(4,165,000)
Net Assets Of Governmental Activities	<u>\$ 5,866,827</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 620,764	\$	\$	\$
In Lieu Tax Payments	239,690	209,296		
Excess Fees	6,367			
Licenses and Permits	83,263			
Intergovernmental Revenues	231,484	1,281,507	224,156	119,909
Charges for Services	672,217			
Miscellaneous	175,310	183,146	14,632	
Interest	1,858	4,418	159	1,134
Total Revenues	<u>2,030,953</u>	<u>1,678,367</u>	<u>238,947</u>	<u>121,043</u>
EXPENDITURES				
General Government	640,404			
Protection to Persons and Property	1,066,489		564,023	
Social Services	191,906			
Recreation and Culture	64,127			
Transportation Facilities and Services		116,073		
Roads		1,087,075		
Debt Service	33,549		22,736	33,467
Capital Projects		387,246		
Administration	430,174	353,566	106,102	
Total Expenditures	<u>2,426,649</u>	<u>1,943,960</u>	<u>692,861</u>	<u>33,467</u>
Excess (Deficiency) of Revenues				
Expenditures Before Other				
Financing Sources (Uses)	<u>(395,696)</u>	<u>(265,593)</u>	<u>(453,914)</u>	<u>87,576</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	74,253			
Transfers From Other Funds	716,038		531,138	
Transfers To Other Funds	<u>(461,200)</u>	<u>(222,690)</u>		
Total Other Financing Sources (Uses)	<u>329,091</u>	<u>(222,690)</u>	<u>531,138</u>	
Net Change in Fund Balances	(66,605)	(488,283)	77,224	87,576
Fund Balances - Beginning	508,249	723,180	12,605	115,898
Fund Balances - Ending	<u>\$ 441,644</u>	<u>\$ 234,897</u>	<u>\$ 89,829</u>	<u>\$ 203,474</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

	Rural Business Enterprise Grant Revolving Loan Fund	McCreary County Courthouse and Public Square Corporation Fund	Occupational Tax Fund	Non- Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$	\$	\$ 940,961	\$ 210,726	\$ 1,772,451
In Lieu Tax Payments					448,986
Excess Fees					6,367
Licenses and Permits					83,263
Intergovernmental Revenues	105,000	391,719		851,691	3,205,466
Charges for Services					672,217
Miscellaneous	40,629			60,640	474,357
Interest	18,799	28,395	1,615	9,542	65,920
Total Revenues	<u>164,428</u>	<u>420,114</u>	<u>942,576</u>	<u>1,132,599</u>	<u>6,729,027</u>
EXPENDITURES					
General Government	338,854		64,714	48,197	1,092,169
Protection to Persons and Property				143,414	1,773,926
Social Services				150,820	342,726
Recreation and Culture				42,370	106,497
Transportation Facilities and Services					116,073
Roads					1,087,075
Debt Service		419,181		28,334	537,267
Capital Projects				1,014,147	1,401,393
Administration	4,844	2,000		312	896,998
Total Expenditures	<u>343,698</u>	<u>421,181</u>	<u>64,714</u>	<u>1,427,594</u>	<u>7,354,124</u>
Excess (Deficiency) of Revenues					
Expenditures Before Other					
Financing Sources (Uses)	<u>(179,270)</u>	<u>(1,067)</u>	<u>877,862</u>	<u>(294,995)</u>	<u>(625,097)</u>
Other Financing Sources (Uses)					
Financing Obligation Proceeds					74,253
Transfers From Other Funds				551,366	1,798,542
Transfers To Other Funds			(1,114,652)		(1,798,542)
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u>(1,114,652)</u>	<u>551,366</u>	<u>74,253</u>
Net Change in Fund Balances	(179,270)	(1,067)	(236,790)	256,371	(550,844)
Fund Balances - Beginning	225,711	426,694	263,869	99,535	2,375,741
Fund Balances - Ending	<u>\$ 46,441</u>	<u>\$ 425,627</u>	<u>\$ 27,079</u>	<u>\$ 355,906</u>	<u>\$ 1,824,897</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (550,844)
--	--------------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	355,579
Depreciation Expense	(322,728)
Asset Disposed of, Net Book Value	(54,391)

The payment of notes receivable from entities provides current financial resources to governmental funds while providing entities with money consumes current financial resources. These transactions, however, have no effect on net assets.

Notes Receivable Principal Received	(98,280)
Notes Receivable Principal Loaned	377,000

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(74,495)
Bond Payments	195,000
Financing Obligations Principal Amount	152,299

Change in Net Assets of Governmental Activities	\$ (20,860)
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MCCREARY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

MCCREARY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 10,995
Total Current Assets	<u>10,995</u>
 Total Assets	 <u>10,995</u>
 Net Assets	
Amount Held In Custody For Others	937
Unrestricted	<u>10,058</u>
Total Net Assets	<u><u>\$ 10,995</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 64,129
Total Operating Revenues	<u>64,129</u>
Operating Expenses	
Cost of Sales	(53,595)
Sales Tax	(3,208)
Recreation & Education	<u>(1,184)</u>
Total Operating Expenses	<u>(57,987)</u>
Operating Income (Loss)	<u>6,142</u>
Nonoperating Revenues (Expenses)	
Inmated Deposits	76,792
Inmate Purchases	(64,129)
Inmate Refunds	<u>(12,006)</u>
Total Nonoperating Revenues (Expenses)	<u>657</u>
Change In Net Assets	6,799
Total Net Assets - Beginning	<u>4,196</u>
Total Net Assets - Ending	<u><u>\$ 10,995</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MCCREARY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 64,129
Cost of Sales	(53,595)
Sales Tax	(3,208)
Recreational & Education	(1,184)
Net Cash Provided By Operating Activities	<u>6,142</u>
Cash Flows From Noncapital Financing Activities	
Inmate Deposits	76,792
Inmate Purchases	(64,129)
Inmate Refunds on Accounts	(12,006)
Net Cash Provided By Noncapital Financing Activities	<u>657</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>6,799</u>
Cash and Cash Equivalents - July 1, 2006	<u>4,196</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 10,995</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>\$ 6,142</u>
Net Cash Provided By Operating Activities	<u><u>\$ 6,142</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2007

MCCREARY COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2007

	Solid Waste Management Board	Tourism Commission	McCreary County Airport Board	Stearns Historical Area Development Authority	Total Component Units
Assets					
Current Assets:					
Cash and Cash Equivalents	\$ 27,334	\$ 61,789	\$ 93,714	\$ 5,578	\$ 188,415
Total Current Assets	<u>27,334</u>	<u>61,789</u>	<u>93,714</u>	<u>5,578</u>	<u>188,415</u>
Noncurrent Assets:					
Capital Assets-Net of Accumulated Depreciation:					
Land			91,000	30,000	121,000
Land Improvements			275,370		275,370
Buildings			197,792	1,302,297	1,500,089
Other Equipment			59,741		59,741
Vehicles and Equipment			14,380		14,380
Total Noncurrent Assets			<u>638,283</u>	<u>1,332,297</u>	<u>1,970,580</u>
Total Assets	<u>27,334</u>	<u>61,789</u>	<u>731,997</u>	<u>1,337,875</u>	<u>2,158,995</u>
Liabilities					
Due To McCreary County	42		263		305
Current Liabilities:					
Financing Obligations				19,129	19,129
Total Current Liabilities	<u>42</u>		<u>263</u>	<u>19,129</u>	<u>19,434</u>
Noncurrent Liabilities:					
Financing Obligations				258,733	258,733
Total Noncurrent Liabilities				<u>258,733</u>	<u>258,733</u>
Total Liabilities	<u>42</u>		<u>263</u>	<u>277,862</u>	<u>278,167</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt			638,283	1,054,435	1,692,718
Unrestricted	27,292	61,789	93,451	5,578	188,110
Total Net Assets	<u>\$ 27,292</u>	<u>\$ 61,789</u>	<u>\$ 731,734</u>	<u>\$ 1,060,013</u>	<u>\$ 1,880,828</u>

The accompanying notes are an integral part of the financial statements

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MCCREARY COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Solid Waste Management Board	Tourism Commission	McCreary County Airport Board	Stearns Historical Area Development Authority	Total Component Units
Expenses	<u>\$ 34,430</u>	<u>\$ 31,619</u>	<u>\$ 27,694</u>	<u>\$ 68,523</u>	<u>\$ 162,266</u>
Program Revenues:					
Charges For Services	37,674				37,674
Operating Grants and Contributions		27,380	8,708		36,088
Capital Grants and Contributions			228,392	33,294	261,686
Total Program Revenues	<u>37,674</u>	<u>27,380</u>	<u>237,100</u>	<u>33,294</u>	<u>335,448</u>
Net Program Revenues	<u>3,244</u>	<u>(4,239)</u>	<u>209,406</u>	<u>(35,229)</u>	<u>173,182</u>
General Revenues					
Miscellaneous Revenues			2,450		2,450
Interest		231	1,181		1,412
Total General Revenues		<u>231</u>	<u>3,631</u>		<u>3,862</u>
Change in Net Assets	3,244	(4,008)	213,037	(35,229)	177,044
Net Assets - Beginning	<u>24,048</u>	<u>65,797</u>	<u>518,697</u>	<u>1,095,242</u>	<u>1,703,784</u>
Net Assets Ending	<u>\$ 27,292</u>	<u>\$ 61,789</u>	<u>\$ 731,734</u>	<u>\$ 1,060,013</u>	<u>\$ 1,880,828</u>

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of McCreary County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

There is no incorporated city within McCreary County; therefore, the below entities cannot be included as part of another local government within McCreary County. Based upon criteria stated in GASB Statements 14 and 39, the following legally separate entities are considered as part of the reporting entity of the McCreary County Fiscal Court:

- A. McCreary County Courthouse and Public Square Corporation,
- B. McCreary County Solid Waste Management Board,
- C. McCreary County Tourism Commission,
- D. McCreary County Airport Board,
- E. Stearns Historical Area Development Authority.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

F. McCreary County Industrial Development Authority

Blended Component Units

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

McCreary County Courthouse and Public Square Corporation

The McCreary County Courthouse and Public Square Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the fiscal court.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

McCreary County Solid Waste Management Board

The McCreary County Solid Waste Management Board was established by the McCreary County Fiscal Court to administer solid waste activities within the county. The activities consist of collecting a franchise fees tax, which was adopted by the McCreary County Fiscal Court, and using the proceeds to work toward cleaning up and preventing solid waste within the county. The county provides additional funding to the Solid Waste Management Board, as needed to carry out the board's objectives. Therefore, management must include the board as a component unit, and the board's financial activity will be discretely presented with that of the fiscal court.

McCreary County Tourism Commission

The McCreary County Tourism Commission was established by the McCreary County Fiscal Court for the purpose of promoting recreational, tourism, and convention activities within the county. In order to finance the operations and maintenance of the McCreary County Tourism Commission, the McCreary County Fiscal Court levied a transient room tax of three (3%) and charged the Commission with the duty of collecting the tax. Therefore, management must include the Commission as a component unit, and the Commission's financial activity will be discretely presented with that of the Fiscal Court.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

McCreary County Airport Board

The McCreary County Fiscal Court established the McCreary County Airport Board. The board is responsible for the building, expansion, and maintenance of an airport within the county. The fiscal court's objective is that having an airport within the county will promote industrial development to the county. Therefore, management must include the board as a component unit, and the board's financial activity will be discretely presented with that of the Fiscal Court.

Stearns Historical Area Development Authority

The McCreary County Fiscal Court established the Stearns Historical Area Development Authority (SHADA). It was created by the fiscal court to account for receipts and expenditures relating to the project to restore and revitalize historical buildings in Stearns, Kentucky. The Stearns Community is a former coal-mining town, which is a tourist attraction for McCreary County. The property in Stearns is leased out to and is operated by the McCreary County Heritage Foundation, which is a not-for-profit organization that is legally separate from the McCreary County Fiscal Court. Therefore, management must include SHADA as a component unit, and the authority's financial activity will be discretely presented with that of the fiscal court. The McCreary County Heritage Foundation will not be presented as part of the fiscal court's reporting package, since it is independent of the fiscal court.

McCreary County Industrial Development Authority

The McCreary County Fiscal Court established the McCreary County Industrial Development Authority solely for the purpose of acquiring and improving interest in real estate and other facilities and properties for the ultimate benefit of the county. The Authority consists of six members, which are appointed by the County Judge/Executive and approved by the Fiscal Court. The Authority's functions include the recruitment and retention of industry and promotion of economic and industrial development within the County. Therefore, management must include the Authority as a component unit and the Authority's financial activities should have been discretely presented with that of the fiscal court. The Authority's financial statements, however, were not furnished to us and have not been included.

C. McCreary County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting McCreary County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of McCreary County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. McCreary County Elected Officials (Continued)

- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government (DLG) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary source of this fund is coal and severance tax grants from the state. These funds are to be spent on priority expenditure categories as specified by statute. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Rural Business Enterprise Grant (RBEG) – Revolving Loan Fund – This fund is used to account for receipts and expenditures relating to a federal grant for rural business enterprise.

Occupational Tax Fund – The primary purpose of this fund is to account for the collection of occupational tax. The primary source of revenue for this fund is occupational employment tax and net profit tax.

McCreary County Courthouse and Public Square Corporation – This fund is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. This is an unbudgeted fund of the county.

The primary government also has the following non-major funds: Local Government Economic Development Fund, Emergency 911 Dispatch Fund, Enterprise Community Grant Fund, Youth Fund, Senior Fund, Champions Fund, SMART Works Fund, Disaster Assistance Fund, ISTEAFund, the Kentucky Association of Counties Leasing Trust Acquisition (KACOLT) 911 Equipment Fund, and the Park Fund.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, ISTEAFund, Rural Business Enterprise Grant - Revolving Loan Fund (RBEG-RLF Fund), Occupational Tax Fund, Emergency 911 Dispatch Fund, Local Economic Development Fund, SMART Works Fund, Disaster Assistance Fund, ISTEAFund, Youth Fund, Senior Fund, Champions Fund, Park Fund, and the Kentucky Association of Counties Leasing Trust Acquisition (KACOLT) 911 Equipment Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The McCreary County Courthouse and Public Square Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Presentation of Component Units And Significant Transactions

The financial statements present the following major discretely presented component units: McCreary County Solid Waste Management Board, McCreary County Tourism Commission, McCreary County Airport Board, and the Stearns Historical Area Development Authority. The McCreary County Industrial Development Authority is not presented in the current year.

McCreary County Solid Waste Management Board accounts for the activities relating to the collection of solid waste within the County.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units And Significant Transactions (Continued)

McCreary County Tourism Commission accounts for the activities related to the promotion of tourism within the County. McCreary County Fiscal Court's significant transactions with the Tourism Commission for fiscal year ended June 30, 2007 are \$23,465 for transient room tax collections.

McCreary County Airport Board accounts for the activities relating to the County airport. McCreary County Fiscal Court's significant transaction with the Airport Board for fiscal year ended June 30, 2007 is \$26,784 for Enterprise Community Grant benchmark activities.

Stearns Historical Area Development Authority accounts for activities relating to the projects to restore and revitalize the buildings in Stearns, Kentucky.

The McCreary County Industrial Development Authority accounts for activities relating to the recruitment and retention of industry and promotion of economic and industrial development within the County. McCreary County Fiscal Court's significant transactions with the Authority for fiscal year ended June 30, 2007 are a contribution of \$175,761 from the Smart Works Fund and a subsequent payment of \$42,126 from the county's occupational tax fund, which was included as a receivable by the Authority.

These component units, with the exception of the Industrial Development Authority, are presented in a separate column in the government-wide financial statements that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	20-25
Machinery and Equipment	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50
Intangible	\$ 5,000	2-40

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the McCreary County Courthouse Public Square Corporation Fund, a blended component unit. The corporation issued bonds for the addition of the judicial building, which AOC has occupied, onto the existing courthouse. The fiscal court has assumed responsibility for this debt; however, the Administrative Office of the Courts has entered into a leasing agreement with the county agreeing to pay all of the bond payments directly to the bondholders, on behalf of the fiscal court. Therefore, the county did not budget any bond payments to be made from the county's funds.

A formal budget was not adopted for the Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Fund, a blended component unit. This county-owned account was established by a third party administrator to account for the lease purchase proceeds for 911 equipment obtained by the county. GOLD does not require the fiscal court to report or budget these funds.

Formal budgets were not adopted for the Solid Waste Management Board, the Tourism Commission, the McCreary County Airport Board, the Stearns Historical Area Development Authority, and the McCreary County Industrial Development Authority because these entities are component units of the fiscal court and the financial activity is not required to be included in the budget or financial statements of the primary government. The fiscal court established these entities as component units, which are operated independently of the McCreary County Fiscal Court. These entities are included as discretely presented component units on the county's financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). During the fiscal year, deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County's deposits in accordance with the security agreement as follows:

- Uncollateralized and Unsecured \$34,981

B. Investments

As of June 30, 2007, the county had the following investments:

Investments	Cost	Interest Rate	Maturity Date
Primary Government:			
Guaranteed Investment			
Contract (GIC)	\$ 417,905	5.43%	09/01/20

A guaranteed investment contract (GIC) is a group annuity contract designed to provide guarantees of principal and interest on funds deposited with an insurance company for a specified period of time. GICs are generally not evidenced by securities that exist physically and are not classified into credit risk categories.

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk. KRS 66.480 limits the County's investments in the following:

- Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government.
- Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- Bankers' acceptances for bank's rate in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency.
- Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments.

Also, the County is limited to investing no more than 20% in any one of four specifically mentioned investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices.

Note 3. Operating Leases

The fiscal court entered into various lease agreements for copiers, mailing scales, and telephone equipment. The future minimum lease payments for these leases are as follows:

Fiscal Year Ended June 30	Amount
2008	\$ 4,440
2009	2,747
Total Minimum Lease Payments	<u>\$ 7,187</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Receivables

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the County from the U. S. Department of Health and Human Services. In order to account for the loan repayments, McCreary County established the SMART Works Fund. In 1998, the County was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest rate loans to eligible businesses, which were passed through the U. S. Department of Agriculture. The County deposited the RBEG loan repayments and reflected the RBEG receivables in the SMART Works Fund. During fiscal year ended June 30, 2004, federal officials informed the County that RBEG loan repayments should be accounted for separately. In December 2003, the County established the RBEG Revolving Loan Fund and transferred appropriate funds related to the RBEG loans from the SMART Works Fund to the RBEG Revolving Loan Fund. The County may use the loan repayments of the SMART Works Fund and the RBEG Revolving Loan Fund in accordance with each federal program's guidelines. The balance of receivables due as of June 30, 2007 for each fund is as follows:

Description	Monthly Payment	Loan Term (Years)	Interest Rate	Principal Balance June 30, 2007
SMART Works Fund:				
Archery Unlimited	\$ 418	5	7.25%	\$ 20,120
B&D Printing, LLC	183	5	5.00%	2,127
Bethel Mower Repair	156	3	7.50%	3,456
Blue Heron Restaurant	587	10	7.25%	43,900
Central Gas	732	12	6.00%	73,189
Jack Winchester	156	3	7.50%	4,640
Deblar Signs & Graphics	424	10	7.00%	15,787
G&T Janitorial Service	171	3	7.50%	3,277
Stearns Lumber	864	10	7.50%	23,400
Total SMART Works Fund				189,896
RBEG - Revolving Loan Fund				
Cooperzone Fitness Center	829	6	6.00%	44,449
Greater Air Systems	1,195	15	5.00%	147,127
Farmhouse Primitives	301	7	6.00%	12,479
It's A Dollar	364	4	7.50%	12,141
Little Lambs Child Care Center	227	10	6.50%	11,950
Marcum's Pressure Washing	418	5	7.25%	20,709
McCreary Heritage Foundation	1,591	10	5.00%	109,178
Moonlight Reidge Properties	1,450	6	6.00%	73,064
Phil's Auto Repair	730	10	6.00%	48,064
Tammie's Allstar Cuts	552	10	5.00%	38,222
Zip Printing	829	8	6.00%	48,188
Total RBEG Revolving Loan Fund				565,571
			Total	\$ 755,467

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 149,011	\$	\$	\$ 149,011
Construction in Progress		204,138		204,138
Total Capital Assets Not Being Depreciated	149,011	204,138		353,149
Capital Assets, Being Depreciated:				
Buildings	7,102,318			7,102,318
Other Equipment	560,290			560,290
Vehicles and Equipment	1,664,440	93,530	(138,371)	1,619,599
Infrastructure	1,473,779	57,911		1,531,690
Total Capital Assets Being Depreciated	10,800,827	151,441	(138,371)	10,813,897
Less Accumulated Depreciation For:				
Buildings	(973,625)	(107,329)		(1,080,954)
Other Equipment	(234,296)	(40,917)		(275,213)
Vehicles and Equipment	(1,039,732)	(123,460)	83,980	(1,079,212)
Infrastructure	(84,031)	(51,022)		(135,053)
Total Accumulated Depreciation	(2,331,684)	(322,728)	83,980	(2,570,432)
Total Capital Assets, Being Depreciated, Net	8,469,143	(171,287)	(54,391)	8,243,465
Governmental Activities Capital Assets, Net	\$ 8,618,154	\$ 32,851	\$ (54,391)	\$ 8,596,614

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 97,956
Protection to Persons and Property	83,681
General Health and Sanitation	10,348
Recreation and Culture	1,524
Roads, Including Depreciation of General Infrastructure Assets	129,219
Total Depreciation Expense - Governmental Activities	\$ 322,728

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Capital Assets (Continued)

Capital asset activity for discretely presented component units for the year ended June 30, 2007 were as follows:

	McCreary County Airport Board		
	Beginning Balance	Increases	Decreases
			Ending Balance
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 91,000		\$ 91,000
Construction In Progress	181,024		(181,024)
Total Capital Assets Not Being Depreciated	272,024		91,000
Capital Assets, Being Depreciated:			
Buildings	112,768	103,110	215,878
Land Improvements		278,581	278,581
Other Equipment	72,176		72,176
Vehicles and Equipment	18,400		18,400
Total Capital Assets Being Depreciated	203,344	381,691	585,035
Less Accumulated Depreciation For:			
Buildings	(16,129)	(1,957)	(18,086)
Land Improvements		(3,211)	(3,211)
Other Equipment	(8,290)	(4,145)	(12,435)
Vehicles and Equipment	(2,680)	(1,340)	(4,020)
Total Accumulated Depreciation	(27,099)	(10,653)	(37,752)
Total Capital Assets, Being Depreciated, Net	176,245	371,038	547,283
Governmental Activities Capital Assets, Net	\$ 448,269	\$ 371,038	\$ (181,024)
			\$ 638,283

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Capital Assets (Continued)

	Stearns Historical Area Development Authority			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 30,000	\$	\$	\$ 30,000
Total Capital Assets Not Being Depreciated	30,000			30,000
Capital Assets, Being Depreciated:				
Buildings	1,967,483			1,967,483
Total Capital Assets Being Depreciated	1,967,483			1,967,483
Less Accumulated Depreciation For:				
Buildings	(612,720)	(52,466)		(665,186)
Total Accumulated Depreciation	(612,720)	(52,466)		(665,186)
Total Capital Assets, Being Depreciated, Net	1,354,763	(52,466)		1,302,297
Governmental Activities Capital Assets, Net	\$ 1,384,763	\$ (52,466)	\$	\$ 1,332,297

Depreciation expense was charged to functions of the discretely presented major component units as follows:

McCreary County Airport Board	\$ 10,653
Stearns Historical Area Development Authority	52,466
Total Depreciation Expense - Governmental Activities	<u>\$ 63,119</u>

Note 6. Short-term Debt

- A. On July 6, 2006, the county entered into a financing agreement with the Kentucky Association of Counties for the purpose of purchasing two dump trucks for the total price of \$185,000. The remaining balance at year end was zero.
- B. On June 20, 2007, the county entered into a financing agreement with the Kentucky Association of Counties for the purpose of purchasing two dump trucks for the total price of \$195,000. The remaining balance at year end was \$195,000.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Short-term Debt (Continued)

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Bank Notes Payable	\$	\$ 380,000	\$ 185,000	\$ 195,000	\$ 195,000
Governmental Activities Short-term Liabilities	\$	\$ 380,000	\$ 185,000	\$ 195,000	\$ 195,000

Note 7. Long-term Debt

A. First Mortgage Revenue Bonds (Court Facilities Project), Series 1999A

On November 1, 1999, the McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining rental space for the AOC at the Justice Center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

The McCreary County Courthouse and Public Square Corporation designated the County to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The McCreary County Courthouse and Public Square Corporation expects annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation is dependant upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

A. First Mortgage Revenue Bonds (Court Facilities Project), Series 1999A (Continued)

The debt service requirements for the First Mortgage Revenue Bonds are presented as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 205,000	\$ 213,881
2009	215,000	203,066
2010	225,000	191,736
2011	240,000	179,763
2012	250,000	167,145
2013-2017	1,480,000	578,379
2018-2021	1,550,000	206,280
Totals	<u>\$ 4,165,000</u>	<u>\$ 1,740,250</u>

B. Long-Term Lease Participation Agreement

The Kentucky Local Correctional Facilities Authority (KLCFA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. On October 15, 1984 McCreary county entered into a lease participation agreement and financial plan for jail construction costs with KLCFA, which was subsequently amended February 15, 1987, agreeing to pay KLCFA lease payments equal to \$316,534 principal plus a proportional share of interest on the KCLFA's Multi-County Correctional Refunding and Improvement Bonds, 1987 Series. On February 1, 1994, KLCFA issued its Multi-County Correctional Facilities Refunding Bonds, 1994 Series, refunding the 1987 Series. On October 13, 2004,

KLCFA issued it Multi-County Correctional Facilities Revenue Refunding Bonds, Series 2004, refunding the 1994 Series. As of October 13, 2004, McCreary County's outstanding principal balance on its lease participation agreement with KLCFA for the County's share of the 1994 Series was \$182,172. McCreary County's proportionate share of the October 13, 2004 refunding resulted in an additional principal reduction of \$18,907 and interest savings of \$7,852.

The second amended lease participation agreement dated October 1, 2004 between KLCFA and McCreary County requires an annual principal payment to be made by October 1 and semi-annual interest payments to be made on October 1 and April 1. Interest rates range from 6.92% to 6.94%. As of June 30, 2007, the principal balance on the agreement for McCreary County's share of KLCFA's 2004 Series was \$138,731. Lease participation payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 13,555	\$ 9,150
2009	14,495	8,179
2010	15,499	7,139
2011	16,573	6,028
2012	17,722	4,840
2013-2014	60,887	6,527
Totals	<u>\$ 138,731</u>	<u>\$ 41,863</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Long Term Debt (Continued)

C. Voting Machines

On May 3, 1999, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of voting machines. The principal payments are due annually by January 20th and are to be paid in full on January 20, 2009; interest payments are due monthly starting in July 1999. The principal balance as of June 30, 2007 is \$23,755. Debt service requirements for fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 11,000	\$ 1,963
2009	12,755	272
Totals	<u>\$ 23,755</u>	<u>\$ 2,235</u>

D. 911 Equipment

On May 29, 1998, the McCreary Fiscal Court entered into a 7-year financing obligation with KACo Leasing Trust for the purchase of 911 equipment in the amount of \$300,000. McCreary Fiscal Court refinanced the remaining balance of \$140,000 on the financing obligation June 13, 2002 for a ten-year period. The principal balance as of June 30, 2008 is \$77,000. Debt service requirements for the fiscal years ending June 30, 2007 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 14,200	\$ 3,666
2009	14,800	2,921
2010	15,400	2,145
2011	16,000	1,338
2012	16,600	500
Totals	<u>\$ 77,000</u>	<u>\$ 10,570</u>

E. Advanced Life Saving Equipment

On April 30, 2002, the McCreary Fiscal Court entered into a 10-year financing obligation for \$85,979 with KACo Leasing Trust for the purchase of advanced life saving equipment and to make the required principal payment on the original financing obligation that was refinanced in Item E above. Principal payments are due annually on January 20th and interest payments are due monthly. The financing obligation is scheduled to be paid off in January 2012. The principal balance as of June 30, 2007 is \$48,207. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Long Term Debt (Continued)

E. Advanced Life Saving Equipment (Continued)

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 8,724	\$ 2,159
2009	9,161	1,728
2010	9,619	1,275
2011	10,099	799
2012	10,604	300
Totals	<u>\$ 48,207</u>	<u>\$ 6,261</u>

F. Road Equipment

On December 30, 1999, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of road equipment. Principal payments are due annually by July 20 and interest payments are due monthly. The principal balance as of June 30, 2007 is \$91,000. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 29,000	\$ 3,773
2009	31,000	1,967
2010	31,000	151
Totals	<u>\$ 91,000</u>	<u>\$ 5,891</u>

G. Courthouse Renovations

On September 27, 2001, the McCreary County Fiscal Court entered into a 20-year financing obligation with Kentucky Area Development District (KADD) for the renovation of the courthouse. The principal payments are due annually by September 20th and mature in September 2021. Interest payments are due every six months starting in March 2002. The principal balance as of June 30, 2007 is \$310,000.

Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 15,000	\$ 18,549
2009	15,000	17,045
2010	15,000	16,281
2011	15,000	15,485
2012	15,000	14,660
2011-2017	100,000	57,200
2018-2022	135,000	26,548
Totals	<u>\$ 310,000</u>	<u>\$ 165,768</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Long Term Debt (Continued)

H. Courthouse Renovations

On September 27, 2001, the McCreary County Fiscal Court entered into a 20-year financing obligation with Kentucky Area Development District (KADD) for the purpose of financing the completion of the Administrative Office of The Courts (AOC) Courthouse Facility renovation project. The principal payments are due annually by September 20th and mature in September 2021. Interest payments are due every six months starting in March 2002. The principal balance as of June 30, 2008 is \$260,000. In accordance with the lease agreement, the debt service on this project will be paid 100% by AOC.

Debt service requirements for the fiscal years ending June 30, 2007 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 10,000	\$ 14,348
2009	10,000	13,868
2010	15,000	13,263
2011	15,000	12,512
2012	15,000	11,733
2013-2017	85,000	46,239
2018-2022	110,000	18,857
Totals	<u>\$ 260,000</u>	<u>\$ 130,820</u>

I. Education Center

On March 25, 2002, the McCreary Fiscal Court entered into a 5-year purchase and sale agreement with the McCreary County Board of Education for the purchase of real estate known as the McCreary County Education Center together with all improvements. The purchase price for the assets was \$200,000, with \$100,000 due upon execution of the purchase and sale agreement. The remaining balance of \$100,000 shall be paid, without interest, within sixty months of execution of the purchase and sale agreement. As of the fiscal year ending June 30, 2007, the remaining balance had not been paid.

J. Ambulance

On July 12, 2004, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of an ambulance. Principal payments are due annually by January 20th and interest payments are due monthly. The principal balance as of June 30, 2007 is \$31,029. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 15,302	\$ 896
2009	15,727	340
Totals	<u>\$ 31,029</u>	<u>\$ 1,236</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Long Term Debt (Continued)

K. Ambulance

On September 12, 2006, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of an ambulance for the total price of \$74,253. Principal and interest payments are due monthly by 20th. The principal balance as of June 30, 2007 is \$65,428. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 13,820	\$ 3,144
2009	14,558	2,389
2010	15,332	1,598
2011	16,148	763
2012	5,570	63
Totals	<u>\$ 65,428</u>	<u>\$ 7,957</u>

L. Stearns Improvements

On March 27, 2006, the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of McCreary county, entered into a 10 year loan agreement with Bank of McCreary County to refinance the original loan that funded the interior improvements to the Stearns Restaurant and use for the purpose of operating activities. The principal balance as of June 30, 2007 is \$45,550. SHADA leases the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement state that the McCreary County Heritage Foundation will make monthly rental payments to SHADA equal to the required monthly payments due on the loan. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 3,826	\$ 3,299
2009	4,132	2,993
2010	4,452	2,673
2011	4,798	2,327
2012	5,165	1,960
2013-2016	23,177	3,593
Totals	<u>\$ 45,550</u>	<u>\$ 16,845</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Long Term Debt (Continued)

M. Purchase and Restoration of Downtown Stearns

On February 3, 2004, the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of McCreary County, refinanced a previous loan balance of \$279,695 with Bank of McCreary County. The purpose of the original loan was to finance the renovation costs of several facilities in Stearns, Kentucky. The interest rate for the new loan is 4.84% and terms of the new loan agreement call for 180 monthly payments of \$2,186 beginning February 25, 2004. The principal balance as of June 30, 2007 is \$232,312. SHADA leases the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement state that the McCreary County Heritage Foundation will make monthly rental payments to SHADA equal to the required monthly payments due on the loan. Debt service requirements for the fiscal years ending June 30, 2007 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 15,303	\$ 10,933
2009	16,090	10,145
2010	16,887	9,350
2011	17,722	8,514
2012	18,579	7,658
2013-2017	107,733	23,450
2018-2019	39,998	1,631
Totals	<u>\$ 232,312</u>	<u>\$ 71,681</u>

Long-term activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,360,000	\$	\$ 195,000	\$ 4,165,000	\$ 205,000
Financing Obligations	<u>1,223,197</u>	<u>74,253</u>	<u>152,299</u>	<u>1,145,151</u>	<u>130,601</u>
Governmental Activities Long-term Liabilities	<u>\$ 5,583,197</u>	<u>\$ 74,253</u>	<u>\$ 347,299</u>	<u>\$ 5,310,151</u>	<u>\$ 335,601</u>
 Discretely presented component unit:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 295,102	\$	\$ 17,240	\$ 277,862	\$ 19,129
Governmental Activities Long-term Liabilities	<u>\$ 295,102</u>	<u>\$</u>	<u>\$ 17,240</u>	<u>\$ 277,862</u>	<u>\$ 19,129</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$56,574 in interest on financing obligations and \$224,181 in interest on bonds.

Note 9. Contingent Liability

On March 7, 2003, the McCreary County Heritage Foundation, Inc., a nonprofit corporation, obtained a \$200,000 line of credit from the Bank of McCreary County. Borrowings under the line are collateralized by property owned by the Stearns Historical Area Development Authority (SHADA). SHADA leases the property securing the line of credit to the McCreary County Heritage Foundation, Inc. to operate it as a historic attraction. While the bank note is secured by SHADA's property, the McCreary County Heritage Foundation, Inc., receives the draws on the line of credit and is responsible for making the note payments. As of June 30, 2007, the McCreary County Heritage Foundation, Inc. is in compliance with the terms of the loan and the outstanding principal balance is \$44,812.

Note 10. Employee Retirement System

The fiscal court and the Solid Waste Management Board, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 11. Insurance

For the fiscal year ended June 30, 2007, McCreary County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 12. Subsequent Events

Sale of Property - On August 26, 2007, the McCreary County Fiscal Court sold property previously acquired from the McCreary County Board of Education to The Lord's Gym, Incorporated for \$50,000. The county had acquired the property on March 25, 2002 for \$200,000, paying \$100,000 down and executing a Purchase and Sales Agreement with the McCreary County Board of Education. Terms of the agreement called for the remaining balance of \$100,000 to be paid to the School Board by March 25, 2007. This debt was not paid in by the due date and on October 8, 2007, the McCreary County School Board forgave the \$100,000 debt owed and issued a release of the lien. We reviewed the minutes of the fiscal court meetings in order to obtain documentation that the fiscal court had approved the sale of the property and the agreed upon amount. The minutes showed that on November 21, 2006, the fiscal court voted to sell the property for the sum of \$100,000 with the School forgiving \$50,000 of the debt owed and the fiscal court forgiving \$50,000 the original down payment.

Note 13. Prior Period Adjustments

The prior year net asset ending balance for the primary has been restated for the following:

	Governmental Activities
June 30, 2006, Net Assets	\$ 5,887,446
Immaterial Adjustment	<u>241</u>
Restated Net Asset Balance as of June 30, 2006	<u><u>\$ 5,887,687</u></u>

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 589,700	\$ 601,660	\$ 620,764	\$ 19,104
In Lieu Tax Payments	270,000	276,285	239,690	(36,595)
Excess Fees	1,600	6,367	6,367	
Licenses and Permits	103,300	103,301	83,263	(20,038)
Intergovernmental Revenue	275,567	295,993	231,484	(64,509)
Charges for Services	575,000	575,000	672,217	97,217
Miscellaneous	25,000	101,894	175,310	73,416
Interest	750	1,750	1,858	108
Total Revenues	<u>1,840,917</u>	<u>1,962,250</u>	<u>2,030,953</u>	<u>68,703</u>
EXPENDITURES				
General Government	616,680	724,005	639,916	84,089
Protection to Persons and Property	985,482	1,128,933	986,731	142,202
General Health and Sanitation	80,917	195,038	191,906	3,132
Social Services	2,000	2,000		2,000
Recreation and Culture	81,500	83,623	64,127	19,496
Debt Service	33,549	33,549	33,549	
Administration	472,981	598,885	415,615	183,270
Total Expenditures	<u>2,273,109</u>	<u>2,766,033</u>	<u>2,331,844</u>	<u>434,189</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(432,192)</u>	<u>(803,783)</u>	<u>(300,891)</u>	<u>502,892</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	672,690	672,690	716,038	43,348
Transfers To Other Funds	<u>(333,795)</u>	<u>(333,795)</u>	<u>(461,200)</u>	<u>(127,405)</u>
Total Other Financing Sources (Uses)	<u>338,895</u>	<u>338,895</u>	<u>254,838</u>	<u>(84,057)</u>
Net Changes in Fund Balance	(93,297)	(464,888)	(46,053)	418,835
Fund Balance - Beginning	<u>75,000</u>	<u>553,970</u>	<u>553,970</u>	
Fund Balance - Ending	<u>\$ (18,297)</u>	<u>\$ 89,082</u>	<u>\$ 507,917</u>	<u>\$ 418,835</u>

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 145,500	\$ 209,296	\$ 209,296	\$ 0
Intergovernmental Revenue	1,433,816	1,604,507	1,281,507	(323,000)
Miscellaneous	28,000	39,000	216,684	177,684
Interest	3,000	4,000	4,418	418
Total Revenues	1,610,316	1,856,803	1,711,905	(144,898)
EXPENDITURES				
Transportation Facilities and Services	60,000	120,000	116,073	3,927
Roads	1,178,651	1,314,529	1,129,813	184,716
Capital Projects		399,260	387,246	12,014
Administration	350,447	430,497	350,176	80,321
Total Expenditures	1,589,098	2,264,286	1,983,308	280,978
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	21,218	(407,483)	(271,403)	136,080
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	(222,690)	(222,690)	(222,690)	
Total Other Financing Sources (Uses)	(222,690)	(222,690)	(222,690)	
Net Changes in Fund Balance	(201,472)	(630,173)	(494,093)	136,080
Fund Balance - Beginning	225,000	653,701	653,701	
Fund Balance - Ending	\$ 23,528	\$ 23,528	\$ 159,608	\$ 136,080

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 188,500	\$ 191,000	\$ 224,156	\$ 33,156
Miscellaneous	5,000	10,000	14,632	4,632
Interest	100	100	159	59
Total Revenues	193,600	201,100	238,947	37,847
EXPENDITURES				
Protection to Persons and Property	496,724	586,394	564,225	22,169
Debt Service	22,736	22,736	22,736	
Administration	95,935	121,572	106,102	15,470
Total Expenditures	615,395	730,702	693,063	37,639
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(421,795)	(529,602)	(454,116)	75,486
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	423,795	423,795	531,138	107,343
Transfers To Other Funds				
Total Other Financing Sources (Uses)	423,795	423,795	531,138	107,343
Net Changes in Fund Balance	2,000	(105,807)	77,022	182,829
Fund Balance - Beginning	2,000	12,807	12,807	
Fund Balance - Ending	\$ 4,000	\$ (93,000)	\$ 89,829	\$ 182,829

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 106,500	\$ 106,500	\$ 119,909	\$ 13,409
Interest	450	950	1,134	184
Total Revenues	106,950	107,450	121,043	13,593
EXPENDITURES				
Roads	600	600		600
Debt Service	33,467	33,467	33,467	
Administration	162,883	189,281		189,281
Total Expenditures	196,950	223,348	33,467	189,881
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(90,000)	(115,898)	87,576	203,474
Net Changes in Fund Balances	(90,000)	(115,898)	87,576	203,474
Fund Balances - Beginning	90,000	115,898	115,898	
Fund Balances - Ending	\$ 0	\$ 0	\$ 203,474	\$ 203,474

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

RURAL BUSINESS ENTERPRISE GRANT
REVOLVING LOAN FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$	\$ 105,000	\$ 105,000	\$
Miscellaneous	22,000	42,000	40,629	(1,371)
Interest	8,100	21,100	18,799	(2,301)
Total Revenues	\$ 30,100	\$ 168,100	\$ 164,428	\$ (3,672)
EXPENDITURES				
General Government	\$ 122,500	\$ 347,500	\$ 338,854	\$ 8,646
Administration	122,600	46,311	4,844	41,467
Total Expenditures	\$ 245,100	\$ 393,811	\$ 343,698	\$ 50,113
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(215,000)	(225,711)	(179,270)	46,441
Net Changes in Fund Balances	(215,000)	(225,711)	(179,270)	46,441
Fund Balances - Beginning	215,000	225,711	225,711	
Fund Balances - Ending	\$	\$	\$ 46,441	\$ 46,441

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 900,000	\$ 900,000	\$ 940,961	\$ 40,961
Interest	1,000	2,000	1,615	(385)
Total Revenues	901,000	902,000	942,576	40,576
EXPENDITURES				
General Government			64,714	(64,714)
Administration		30,877		30,877
Total Expenditures		30,877	64,714	(33,837)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	901,000	871,123	877,862	6,739
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds				
Transfers To Other Funds	(1,060,000)	(1,135,000)	(1,114,652)	20,348
Total Other Financing Sources (Uses)	(1,060,000)	(1,135,000)	(1,114,652)	20,348
Net Changes in Fund Balances	(159,000)	(263,877)	(236,790)	27,087
Fund Balances - Beginning	159,000	263,877	263,869	(8)
Fund Balances - Ending	\$ 0	\$ 0	\$ 27,079	\$ 27,079

MCCREARY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of Budgetary Comparison Schedules to Statement of Revenues, Expenditures, And Changes In Fund Balances

General Fund - Operating Expenditures per Budgetary Comparison Schedule	\$ 2,331,844
Add: General Fund fuel costs paid from Road Fund	36,539
Add KADD Financing Obligations	74,353
Add: Principal Paid Debt by others	14,559
Less: Payment for prior year fuel cost paid from Road Fund	<u>(30,646)</u>
General Fund - Operating Expenditures per Statement of Revenues, Expenditures, and Changes In Fund Balances	<u><u>\$ 2,426,649</u></u>
 General Fund - Other Financing Sources per Budgetary Comparison Schedule	 \$ 254,838
Add: Financing Proceeds	<u>74,253</u>
General Fund - Other Financing Sources per Budgetary Comparison Schedule	<u><u>\$ 329,091</u></u>
 Road Fund - Actual Revenues per Budgetary Comparison Schedules	 \$ 1,711,905
Less: Payments to Road Fund for fuel costs	<u>(33,538)</u>
Road Fund - Operating Revenues per Statement of Revenues, Expenditures, and Changes In Fund Balances	<u><u>\$ 1,678,367</u></u>
 Road Fund - Actual Expenditures per Budgetary Comparison Schedules	 \$ 1,983,308
Less: Expenses paid from Road Fund on behalf of others	<u>(39,348)</u>
Road Fund - Operating Expenditures per Statement of Revenues, Expenditures, and Changes In Fund Balances	<u><u>\$ 1,943,960</u></u>
 Jail Fund - Actual Expenditures per Budgetary Comparison Sched	 \$ 693,063
Less: Prior Year Fuel Cost Payments	<u>(202)</u>
Jail Fund - Operating Expenditures per Statement of Revenues, Expenditures, and Changes In Fund Balances	<u><u>\$ 692,861</u></u>

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MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Park Fund	Emergency 911 Dispatch Fund	Champions Fund	Youth Fund	Senior Fund
ASSETS					
Cash and Cash Equivalents	\$ 66,441	\$ 29,346	\$ 740	\$ 84,323	\$ 74,146
Total Assets	<u>\$ 66,441</u>	<u>\$ 29,346</u>	<u>\$ 740</u>	<u>\$ 84,323</u>	<u>\$ 74,146</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due Other Funds		436			
Total Liabilities		<u>436</u>			
FUND BALANCES					
Reserved for:					
Encumbrances		7,965			
Unreserved:					
Special Revenue Funds	<u>66,441</u>	<u>20,945</u>	<u>740</u>	<u>84,323</u>	<u>74,146</u>
Total Fund Balances	<u>66,441</u>	<u>28,910</u>	<u>740</u>	<u>84,323</u>	<u>74,146</u>
Total Liabilities and Fund Balances	<u>\$ 66,441</u>	<u>\$ 29,346</u>	<u>\$ 740</u>	<u>\$ 84,323</u>	<u>\$ 74,146</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2007
(Continued)

Enterprise Community Grant Fund	Smart Works Fund	Disaster Assistance Fund	Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Fund	Total Non-Major Governmental Funds
\$ 15,718	\$ 59,486	\$ 26,140	\$ 2	\$ 356,342
<u>\$ 15,718</u>	<u>\$ 59,486</u>	<u>\$ 26,140</u>	<u>\$ 2</u>	<u>\$ 356,342</u>
				436
				<u>436</u>
				7,965
<u>15,718</u>	<u>59,486</u>	<u>26,140</u>	<u>2</u>	<u>347,941</u>
<u>15,718</u>	<u>59,486</u>	<u>26,140</u>	<u>2</u>	<u>355,906</u>
<u>\$ 15,718</u>	<u>\$ 59,486</u>	<u>\$ 26,140</u>	<u>\$ 2</u>	<u>\$ 356,342</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Park Fund	Local Government Economic Development Fund	Emergency 911 Dispatch Fund	Champions Fund	Youth Fund
REVENUES					
Taxes	\$	\$	\$ 210,726	\$	\$
Intergovernmental	66,945	429,712		146,323	
Miscellaneous	3,319		40		
Interest			88		
Total Revenues	<u>70,264</u>	<u>429,712</u>	<u>210,854</u>	<u>146,323</u>	
EXPENDITURES					
General Government					
Protection to Persons and Property			143,414		
Social Services				145,573	
Recreation and Culture	42,370				
Debt Service			28,334		
Capital Projects	129,713	627,852	47,871		
Administration	50			10	
Total Expenditures	<u>172,133</u>	<u>627,852</u>	<u>219,619</u>	<u>145,583</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>(101,869)</u>	<u>(198,140)</u>	<u>(8,765)</u>	<u>740</u>	
OTHER FINANCING SOURCES (USES)					
Transfers From Other Funds	168,310	198,140	21,200		84,323
Total Other Financing Sources (Uses)	<u>168,310</u>	<u>198,140</u>	<u>21,200</u>		<u>84,323</u>
Net Change in Fund Balances	66,441		12,435	740	84,323
Fund Balances - Beginning			16,475		
Fund Balances - Ending	<u>\$ 66,441</u>	<u>\$ 0</u>	<u>\$ 28,910</u>	<u>\$ 740</u>	<u>\$ 84,323</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Senior Fund	Enterprise Community Grant Fund	Smart Works Fund	Disaster Assistance Fund	ISTEA Fund	Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$	\$	\$
				208,711		210,726
		57,281				851,691
		9,259	195			60,640
		66,540	195	208,711		9,542
						1,132,599
		48,197				48,197
						143,414
5,247						150,820
						42,370
						28,334
				208,711		1,014,147
		252				312
5,247		48,449		208,711		1,427,594
(5,247)		18,091	195			(294,995)
79,393						551,366
79,393						551,366
74,146		18,091	195			256,371
	15,718	41,395	25,945		2	99,535
\$ 74,146	\$ 15,718	\$ 59,486	\$ 26,140	\$ 0	\$ 2	\$ 355,906

The accompanying notes are an integral part of the financial statements.

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COMPONENT UNITS OF MCCREARY COUNTY
BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

**SOLID WASTE MANAGEMENT BOARD
 COMPONENT UNITS OF MCCREARY COUNTY
 BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 27,334</u>
Total Assets	<u><u>\$ 27,334</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Due to McCreary County	<u>\$ 42</u>
Total Liabilities	<u>42</u>
FUND BALANCE	
Unreserved	<u>27,292</u>
Total Fund Balance	<u>27,292</u>
Total Liabilities and Fund Balances	<u><u>\$ 27,334</u></u>

The accompanying notes are an integral part of the financial statements.

**TOURISM COMMISSION
COMPONENT UNITS OF MCCREARY COUNTY
BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 61,789</u>
Total Assets	<u><u>\$ 61,789</u></u>
FUND BALANCE	
Unreserved	<u>\$ 61,789</u>
Total Fund Balance	<u><u>\$ 61,789</u></u>

The accompanying notes are an integral part of the financial statements.

**MCCREARY COUNTY AIRPORT BOARD
 COMPONENT UNITS OF MCCREARY COUNTY
 BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 93,714</u>
Total Assets	<u><u>\$ 93,714</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Due to McCreary County	<u>\$ 263</u>
Total Liabilities	<u>263</u>
FUND BALANCE	
Unreserved	<u>93,451</u>
Total Fund Balance	<u>93,451</u>
Total Liabilities and Fund Balances	<u><u>\$ 93,714</u></u>
Total Fund Balance - McCreary County Airport Board	\$ 93,451
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	676,035
Accumulated Depreciation	<u>(37,752)</u>
Net Assets Of McCreary County Airport Board	<u><u>\$ 731,734</u></u>

The accompanying notes are an integral part of the financial statements.

**STEARNS HISTORICAL AREA DEVELOPMENT AUTHORITY
 COMPONENT UNITS OF MCCREARY COUNTY
 BALANCE SHEETS - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 5,578
Total Assets	<u>\$ 5,578</u>
FUND BALANCE	
Unreserved	<u>5,578</u>
Total Fund Balance	<u>\$ 5,578</u>
 Total Fund Balance - Stearns Historical Area Development Authority	 \$ 5,578
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	1,997,483
Accumulated Depreciation	(665,186)
Long Term Debt Is Not Due and Payable In The Current Period, and	
Therefore Is Not Reported In The Funds	
Financing Obligations	<u>(277,862)</u>
 Net Assets Of Stearns Historical Area Development Authority	 <u>\$ 1,060,013</u>

The accompanying notes are an integral part of the financial statements.

**COMPONENT UNITS OF MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITUES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2007

**SOLID WASTE MANAGEMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	General Fund
REVENUES	
Intergovernmental Revenues	\$ 37,674
Total Revenues	<u>37,674</u>
EXPENDITURES	
General Health and Sanitation	<u>34,430</u>
Total Expenditures	<u>34,430</u>
Excess of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,244</u>
Net Change in Fund Balances	3,244
Fund Balances - Beginning	<u>24,048</u>
Fund Balances - Ending	<u><u>\$ 27,292</u></u>

The accompanying notes are an integral part of the financial statements.

TOURISM COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS- MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund
REVENUES	
Intergovernmental Revenues	\$ 27,380
Interest	231
Total Revenues	<u>27,611</u>
EXPENDITURES	
Recreation and Culture	<u>31,619</u>
Total Expenditures	<u>31,619</u>
Deficiency of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(4,008)</u>
Net Change in Fund Balances	(4,008)
Fund Balances - Beginning	<u>65,797</u>
Fund Balances - Ending	<u><u>\$ 61,789</u></u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY AIRPORT BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund
REVENUES	
Intergovernmental Revenues	\$ 228,392
Charges For Services	8,708
Miscellaneous	2,450
Interest	1,181
Total Revenues	<u>240,731</u>
EXPENDITURES	
Airports	17,041
Capital Projects	200,667
Total Expenditures	<u>217,708</u>
Excess of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>23,023</u>
Net Change in Fund	23,023
Fund Balances - Beginning	70,428
Fund Balances - Ending	<u><u>\$ 93,451</u></u>

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - McCreary County Airport Board	\$ 23,023
Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	200,667
Depreciation Expense	<u>(10,653)</u>
Change In Net Assets Of McCreary County Airport Board	<u><u>\$ 213,037</u></u>

The accompanying notes are an integral part of the financial statements.

**STEARNS HISTORICAL AREA DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	General Fund
REVENUES	
Miscellaneous	\$ 33,294
Total Revenues	<u>33,294</u>
EXPENDITURES	
Debt Service	<u>33,297</u>
Total Expenditures	<u>33,297</u>
Deficiency of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3)</u>
Net Change in Fund	(3)
Fund Balances - Beginning	5,581
Fund Balances - Ending	<u><u>\$ 5,578</u></u>

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Stearns Historical Area Development Authority \$ (3)

Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Depreciation Expense (52,466)

Financing Obligations principal payments are expended in the Governmental Funds as a use of current financial resources

Financing Obligation Payments 17,240

Change In Net Assets Of Stearns Historical Area Development Authority \$ (35,229)

MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2007

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>TOTAL FOR CFDA #</u>	
U. S. Department of Agriculture					
<i>Administered by USDA Rural Development</i>					
<i>Passed Through KY Finance and Administration Cabinet</i>					
Rural Business Enterprise Grants	n/a	10.769	330,000	\$ 330,000	***
U. S. Department of Commerce					
<i>Administered by NOAA</i>					
<i>Passed through to McCreary Co Solid Waste Management Board</i>					
Congressionally Identified Awards and Projects	n/a	11.469	47,591	47,591	
U.S. Department of Transportation - Federal Highway Administration					
<i>Passed through KY Transportation Cabinet</i>					
<i>Passed through to McCreary County Heritage Foundation, Inc.</i>					
Public Lands Highway Program	C-05218123	20.205	208,711	208,711	***
U.S. Department of Health and Human Services					
<i>Passed through to Champions for a Drug Free McCreary County</i>					
Drug-Free Communities Support Program Grants	2 H79 SP11283-02	93.276	145,583	145,583	
U.S. Department of Homeland Security					
<i>Passed Through KY Office of Homeland Security</i>					
Emergency Management Performance Grant Progra	n/a	97.042	4,789	4,789	
TOTAL FEDERAL EXPENDITURES				\$736,674	

*Tested as major program or cluster ****

MCCREARY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of the McCreary County Fiscal Court and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – SUBRECIPIENTS

The following subrecipients' grants passed through the McCreary County Fiscal Court:

McCreary Co Solid Waste Management Board Congressionally Identified Awards and Projects	CFDA # 14.469 \$ 47,591
McCreary County Heritage Foundation, Inc, Public Lands Highway Program	CFDA # 20.205 \$ 208,711
Champions for a Drug Free McCreary County Drug-Free Communities Support Program Grants	CFDA # 93.276 \$ 145,583

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 13, 2008. We issued an adverse opinion on the aggregate discretely presented component opinion unit because the financial statements of the McCreary County Industrial Development Authority, a discretely presented component unit, were not included in the financial statements. McCreary County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McCreary County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McCreary County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McCreary County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2007-08, 2007-09, and 2007-10.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as items 2007-01 and 2007-03 are material weaknesses.

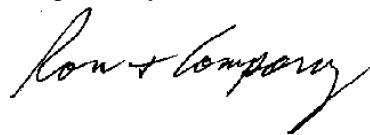
Compliance And Other Matters

As part of obtaining reasonable assurance about whether McCreary County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs. These findings are as follows: 2007-11, 2007-12, 2007-13, 2007-14, 2007-15, and 2007-16.

McCreary County's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,



Ross & Company, PLLC
Certified Public Accountants

June 13, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of McCreary County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. McCreary County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of McCreary County's management. Our responsibility is to express an opinion on McCreary County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCreary County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of McCreary County's compliance with those requirements.

In our opinion, McCreary County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of McCreary County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McCreary County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC
Certified Public Accountants

June 13, 2008

**MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the remaining fund information of McCreary County, Kentucky. An adverse opinion was issued on the aggregate discretely presented component units of McCreary County, Kentucky.
2. Ten significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report. Two significant deficiencies are also material weaknesses.
3. Six instances of noncompliance material to the financial statements of McCreary County were disclosed during the audit.
4. There were no significant deficiencies relating to the audit of the major federal awards programs.
5. The auditor's report on compliance for the audit of the major federal awards programs for McCreary County expresses an unqualified opinion.
6. There were no audit findings relative to the major federal awards programs for McCreary County are reported in Part C of this schedule.
7. The programs tested as major programs were: U.S. Department of Agriculture – Rural Business Enterprise Grants – CFDA #10.769 and the U.S. Department of Transportation – Public Lands Highway Program – CFDA #20.205.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. McCreary County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2007-01 The Fiscal Court Should Pay Invoices Within Thirty Days

During our testing of debt service payments we noted 59 out of 75 invoices were paid late. We noted payments being made as much as three months late. KRS 65.140 requires all bills for goods and services to be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor. We recommend the County comply with KRS 65.140 by paying for all goods and services within thirty (30) working days.

Judge/Executive Blaine Phillips' Response: We will make every attempt to abide by this, however with the court meeting once a month it can be difficult to be prompt.

Auditor's Reply: The payments in question have scheduled payments, the amounts and due dates are known months before due and in some cases years. The fiscal court meetings do not affect the payments as much as two or three months.

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:
(Continued)

2007-02 Interfund Transfers Of \$478,521 Were Made Without Proper Authorization

Of \$1,798,543 in interfund cash transfers only \$1,320,022 could be found in the Fiscal Court minutes showing that the remaining \$478,521 of transfers were not properly authorized and approved by the fiscal court. In addition, of the \$1,320,022 of transfers that were approved, \$146,545 of the transfers were approved after the transfer had already been made prior to approval.

We recommend that all transfers between funds have prior Fiscal Court approval. We also recommend that the amount to be transferred correspond with the actual approved amount and that the transfers be performed timely and within a reasonable period of time after the fiscal court approval.

Judge/Executive Blaine Phillips' Response: No response.

Treasurer Donna Ross' Response: Will follow this recommendation + do so in a timely fashion.

2007-03 The County Should Improve Their Internal Control Procedures In Regards To Bank Statements And Reconciliations

The County has a lack of segregation of duties in regards to bank statements and reconciliations. Currently, bank reconciliations are prepared by someone that is not employed by the county and is not bonded as well. There is not any evidence that shows that the reconciliations were reviewed by the treasurer, nor by an employee independent of the cash disbursement and receipts process. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- We recommend that the treasurer prepare bank reconciliations and ensure that the reconciliations agree to the financial reports.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy. The person completing this review should initial the bank reconciliation to document that a review was performed.

We recommend the County implement these procedures. This will help segregate the duties of the County Treasurer as well as other employees.

Judge/Executive Blaine Phillips' Response: The corrective steps will be taken..

2007-04 The County Filed Incorrect Payroll Tax Returns That Resulted In An Additional \$9,490 Of Taxes Being Due

During fiscal year ending June 30, 2006, the county failed to report \$62,028 on the 941 forms, which are the quarterly tax forms submitted to the IRS by the County. This error created a tax liability of \$9,490. The error was still uncorrected as of June 30, 2007. In addition we were unable to reconcile the difference between reported taxable wages and the payroll summaries. We recommend that each quarter be reconciled and that amended payroll tax returns be filed as needed.

Judge/Executive Blaine Phillips' Response: No response

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:
(Continued)

2007-05 The County Should Maintain Minimum Balance In Their Payroll Account

The County's reconciled balance in the payroll account as of June 30, 2007 was \$22,833. The payroll account is an revolving account and should not at any given time have more than a minimum balance after reconciling items are taken into consideration. Also, the treasurer did not properly reconcile the payroll account. As of June 30, 2007, the County Treasurer's reconciled payroll account bank balance was \$39,831. After auditors made adjustments, we determined the adjusted bank balance was \$22,833. In the future, we recommend the payroll account be properly reconciled to payroll records and any discrepancies (shortages or overages) in the balance be investigated until resolved. We further recommend the surplus balance of \$22,833 be transferred to the General Fund.

Judge/Executive Blaine Phillips' Response: This corrective action will be taken and advise the treasurer to pursue this.

2007-06 Occupational Tax Should Be Allocated In Accordance With Occupational License Fee Ordinance

In accordance with the Occupational License Fee Ordinance adopted by the Fiscal Court on April 13, 2004, occupational tax receipts are to be disbursed as follows after deducting the operational expenses of the Occupational Tax Administrator's Office:

General Fund – Administration	30%
General Fund – Ambulance Service	20%
General Fund – Parks	10%
General Fund – Senior Citizens/Youth	10%
General Fund – Economic Development	20%
Jail Fund – Jail Operations	10%

During the fiscal year, the appropriate amount of occupational tax receipts for administration and ambulance services was not transferred to the General Fund, \$51,527 in additional funds should have been transferred. In addition, the County transferred \$7,628 of occupational tax receipts to the Jail Fund, \$21,338 to the parks, and \$16,744 to senior citizens under the allocated percentages. Also, the economic development allocation was in excess of \$31,084.

Therefore, in order to more accurately reflect the reservation of the remaining balance of the Occupational Tax Fund in accordance with the ordinance and taking into consideration the cumulative effect from prior year, we recommend the County transfer the following amounts from the Occupational Tax Fund: \$35,306 to the General Fund, \$48 to the Jail Fund, \$80,665 to the Economic Development Fund, \$72,693 to Parks, and \$72,618 to Senior Citizens & Youth.

Judge/Executive Blaine Phillips' Response: This will be done as recommended.

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:
(Continued)

2007-07 The Duties Of The County Treasurer Should Not Be Delegated

During the course of our audit, it came to our attention that the County Treasurer has delegated significant duties to a non-county employee. This individual is not covered by bond and does not have any statutory authority to perform these duties. We recommend the County Judge/Executive and the Fiscal Court take necessary immediate action to correct this matter to properly ensure that county financial transactions are processed in accordance with applicable statutes. This matter is being referred to the Governor's Office for Local Development (GOLD) and the County Attorney for action as may be deemed necessary.

Judge/Executive Blaine Phillips' Response: We will look into this again but stress that the situation is advisory only and there is never any monetary duties; however we will comply.

SIGNIFICANT DEFICIENCIES - DISCRETELY PRESENTED COMPONENT UNITS:

2007-08 The McCreary County Solid Waste Management Board Should Implement Compensating Internal Controls

Due to the small size of the McCreary County Solid Waste Management Board, proper segregation of duties may not be possible, therefore we recommend the Solid Waste Management Board implement the following compensating or alternative internal controls:

- As required by the By-Laws of the Solid Waste Management Board, an annual financial statement should be presented to the fiscal court each fiscal year for review.

As an additional control, the Board's annual budget should be presented to the fiscal court for review.

Judge/Executive Blaine Phillips' Response: This has been done.

Solid Waste Management Board's Response: No response.

2007-09 The Airport Board Should Strengthen Internal Controls Over Expenditures

Airport Board checks were only signed by either the Board Chairman or the Board Treasurer and approval of those expenditures was not always recorded in the Board minutes. In order to strengthen internal controls in the area of expenditures, we recommend dual signatures on all checks. As an additional control, we recommend a listing of all expenditures and approval of payment of those expenditures be recorded in the minutes of the Board.

Judge/Executive Blaine Phillips' Response: The airport board was advised of this on previous exit conference. I will ask them to comply.

Airport Board's Response: No Response.

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

SIGNIFICANT DEFICIENCIES - DISCRETELY PRESENTED COMPONENT UNITS: (Continued)

2007-10 The Stearns Historical Area Development Authority Should Implement Compensating Internal Controls

Due to the small size of the Stearns Historical Area Development Authority (SHADA), a proper segregation of duties may not be possible; therefore, we recommend SHADA implement the following compensating or alternative internal controls:

- Two SHADA members, preferably the Chairman and the Treasurer, should sign all checks.
- As required by the ordinance and as an additional control, SHADA's Secretary/Treasurer shall execute an official bond to be set and approved by SHADA.
- As required by the ordinance and as an additional control, SHADA's Secretary/Treasurer should transmit, at least once annually, a detailed report of all activities of SHADA to the Fiscal Court for their review.

Judge/Executive Blaine Phillips' Response: The SHADA Board was advised of this on previous exit conference. I will ask them to comply.

Stearns Historical Area Development Authority Response: No Response.

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT:

2007-11 Fuel Costs Should Be Reimbursed To The County's Road Fund

As summarized in the table below, fuel costs for other departments of the County and its discretely presented component units, as well as for the McCreary County Rescue Squad, which is not a part of the County's reporting entity, continued to be paid from the County's Road Fund.

	Balance Due From Prior Years	Current Year Amount Due	Amount Reimbursed	Balance Due 30-Jun-07
Jail	\$ 202	\$ 1,602	\$ (1,803)	\$ 1
Rescue Squad	401			401
911 Office	481	562	(607)	436
Ambulance Service	42,702	35,573	(30,067)	48,208
Litter Abatement	3,708			3,708
Coroner	1,889	909	(305)	2,493
DES	4,816			4,816
Animal Control	9,021			9,021
PRIDE	479			479
109 Board	42			42
Airport	192	207	(136)	263
Courthouse	197	158	(284)	71
Park		336	(336)	
Constables	237			237
Sheriff's Department	5,112			5,112
Totals	<u>\$ 69,479</u>	<u>\$ 39,347</u>	<u>\$ (33,538)</u>	<u>\$ 75,288</u>

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT: (Continued)

2007-11 Fuel Costs Should Be Reimbursed To The County's Road Fund (Continued)

In accordance with KRS 179.415 (2), expenditures of road fund monies shall be made solely for the purpose of construction, reconstruction, improvements, and maintenance of county roads and bridges; therefore, we recommend these fuel amounts paid from the Road Fund for other departments of the County, its discretely presented component units, and the McCreary County Rescue Squad be reimbursed to the County's Road Fund.

Judge/Executive Blaine Phillips' Response: Fully agree, however we will need to make sure that the figures presented are accurate!

2007-12 The County Treasurer Should Prepare A Monthly Financial Statement

The County Treasurer was not preparing monthly financial statements and submitting them to the members of the Fiscal Court. KRS 68.360 (1) states, "The county treasurer shall balance his (her) books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation." We recommend the County Treasurer prepare a monthly financial statement and submit it to members of the Fiscal Court in an open court meeting.

Judge/Executive Blaine Phillips' Response: We have placed the monthly statement in the Magistrates' mail boxes in the past, Now, we will present it in open court.

2007-13 The County Treasurer Should Properly Prepare Her County Settlement And Present It To The Fiscal Court For Approval

The County Treasurer did not prepare her annual settlement in accordance with KRS 424.220 nor did she present her annual settlement to the fiscal court for approval as required by KRS 68.020 (5). We remind the County Treasurer, that KRS 424.220 requires her to "prepare an itemized, sworn statement of all funds collected received, held, or disbursed during the fiscal year." The financial statement is required to show:

- "the total amount collected and received from each individual source",
- "the total amount of funds disbursed to each individual payee and the purpose for which expended. The amount of salaries paid to all non-elected county employees shall be shown as lump sum expenditures by category such as road department, jails, solid waste, public safety, and administrative personnel."

In addition, the financial statement must also have attached:

- "a certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year, showing the balance, if any, of funds to the credit of the officer making the statement."

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT: (Continued)

2007-13 The County Treasurer Should Properly Prepare Her County Settlement And Present It To The Fiscal Court For Approval
 (Continued)

We further remind the County Treasurer that KRS 68.020 (5) requires her to make a full and complete settlement with the fiscal court within 30 days of the close of the preceding year. We recommend that the County Treasurer fully comply with KRS 424.220 and KRS 68.020 (5) by properly preparing an annual settlement and presenting it to fiscal court for approval in the future.

Judge/Executive Blaine Phillips' Response: No Response.

Treasurer Donna Ross' Response: Prepared, but not presented will do so in future.

2007-14 The County Treasurer Did Not Prepare A Federal Monies Worksheet

The County Treasurer did not prepare the Schedule of Expenditures of Federal Awards for fiscal year ended June 30, 2007 in accordance with OMB Circular A-133. During fiscal year ended June 30, 2007, a single audit was required if federal expenditures equaled or exceeded \$500,000. OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, section 310(B) requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule should include the following, if applicable:

- List individual Federal programs by Federal Agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For Research & Development, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For Example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For Federal awards received as a sub recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total Federal awards expended for each individual Federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub recipients from each Federal program.
- Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

In the future, we recommend the County properly prepare the Schedule of Expenditures of Federal Awards and provide supporting documentation for amounts reported.

Judge/Executive Blaine Phillips' Response: No response.

Treasurer Donna Ross' Response: Will follow your recommendation.

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT: (Continued)

2007-15 All Court-Ordered Fees Should Be Collected By The Circuit Clerk's Office

During the course of our audit, auditors became aware that the County Treasurer was collecting various court-ordered jail fees and depositing them into the County's Jail Fund. We were unable to determine the exact amount collected or the legal authority authorizing the collection of these fees. According to the Administrative Office of the Courts, all money that is ordered by a District Court judge should be going through the Circuit Clerk's receipt system, and then paid to the County Treasurer by the Circuit Clerk. We recommend that the Fiscal Court consult with the County Attorney to determine the legal authority for the collection of these fees, and that all fees collected be accounted for through the Circuit Clerk's receipt system and paid to the County Treasurer by the Circuit Clerk.

Judge/Executive Blaine Phillips' Response: We are willing to follow this procedure until our attorney or District + Circuit Judge says different.

2007-16 The County Failed To Pay Retirement On Qualified Part-time Employees

Any county employee who averages one hundred (100) hours or more per month is required to participate in Kentucky's County Employees Retirement System (CERS) pursuant to KRS 61.565. A review of the non-full-time hourly employees identified eleven employees eligible but not in the retirement system. More specifically, one employee worked in the Road Department, four employees worked in the Detention Center, and seven of the employees worked in the Sheriff's Office.

The liability for the unpaid contributions total \$19,337, with \$12,256 representing the County's portion for year ending June 30, 2007 and the prior year of \$11,049, with \$7,574 representing the County's portion.

We recommend all part-time employees' average hours be checked monthly and require participation and coverage in the CERS as required. We further recommend that the proper authorities be contacted in order to correct this issue.

Judge/Executive Blaine Phillips' Response: We will make the correct adjustment with 1 employee at the road department, 4 employees at Jail. However the Sheriff department 7 employees are paid by A.O.C. + Sheriff's office. That would be their responsibility.

Auditor's Response: All employees that are paid through the county are the county responsibility to ensure that the employees are receiving the benefits they are entitled to by law.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

D. PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT

- Reference Number 2006-01: The County Treasurer Should Apply Cut-Off Procedures To Cash Transfers. This finding has been corrected.
- Reference Number 2006-02: The county treasurer did not prepare monthly financial statements and submit them to the members of the fiscal court. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-03: The county treasurer did not properly prepare her county settlement and present it to the fiscal court for approval. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-04: The fiscal court did not review the administrative code during the fiscal year as required by KRS 68.005(2). This finding was corrected.
- Reference Number 2006-05: Fuel cost for various county departments were paid from the county's road fund and not reimbursed. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-06: The County Treasurer Did Not Prepare A Federal Monies Worksheet. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-07: Occupational tax should be allocated in accordance with occupational license fee ordinance. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-08: The Fiscal Court should pay invoices within 30 days. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-09: Interfund Transfers Of \$953,245 Were made Without Proper Authorization. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-10: All court-ordered fees should be collected by the circuit clerk's office. This finding was not corrected and commented on in the current year.
- Reference Number 2006-13: The county filed incorrect payroll tax returns that resulted in an additional \$9,490 of taxes being do. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-11: The County Failed To Pay Retirement On Qualified Part-time Employees. This finding was not corrected and is commented on in the current year.

REPORTABLE CONDITIONS - PRIMARY GOVERNMENT

- Reference Number 2006-11: The duties of the county treasurer should not be delegated. This finding has not been corrected and is commented on in the current year.
- Reference Number 2006-12: The County Should Improve Their Internal Control Procedures In Regards To Bank Statements and Reconciliations. This finding was not corrected and is commented on in the current year.

McCreary County
Schedule of Findings and Questioned Costs
June 30, 2007 (Continued)

D. PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS - PRIMARY GOVERNMENT

- Reference Number 2006-15: The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically. This finding has been corrected.
- Reference Number 2006-16: The County Should Maintain Minimum Balance In Their Payroll Account. This finding was not corrected and is commented on in the current year.

REPORTABLE CONDITIONS - DISCRETELY PRESENTED COMPONENT UNITS

- Reference Number 2006-17: The McCreary County Solid Waste Management Board should implement compensating internal controls. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-18: The Airport Board should strengthen internal controls over expenditures. This finding was not corrected and is commented on in the current year.
- Reference Number 2006-19: The Stearns Historic Area Development Authority should implement compensating internal controls. This finding was not corrected and is commented on in the current year.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MCCREARY COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2007**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
and
LOCAL GOVERNMENT ECONOMIC DEVELOPMENT PROGRAM
MCCREARY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The McCreary County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Blaine Phillips
County Judge/Executive


Donna Ross
County Treasurer